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## **Things You Should Know About...MULTILEVEL MARKETING**

It's exciting to think about starting your own business, and you don't have to look far to find offers for business opportunities. Many of these offers involve multilevel marketing plans, which give you a chance to sell products or services as part of a distributor system. The promoters claim it's a chance to become involved in a "new way to market" or "unique new idea" that will result in financial success. Unfortunately, the opportunity is seldom as easy or financially rewarding as the promoter would like you to believe.

### **Common Multilevel Marketing Opportunities**

The most common multilevel marketing opportunities involve vending machines that dispense food, personal care items, laundry products, stamps, newspapers, or other products. Other plans relate to real estate ventures, retail sales operations, telephone services, farm supplies, magazine sales, and loan brokering, to name just a few.

### **Multilevel Marketing Advertisements**

Promoters often use classified advertising and direct mail to solicit investors and distributors. Be cautious of advertisements with:

- no company name or address;
- only a telephone number (especially if it is a hotel number);
- income promises that sound too good to be true;
- vague phrases that leave you wondering what the business really involves.

### **Common Problems**

Through investigation, the state has identified some common problems associated with multilevel marketing and business opportunity plans.

**#1 Exaggerated Profits.** One major problem with multilevel marketing and business opportunity advertising is the overstatement of earning potential-claims that you can make more money than possible-due to the fact that many business promoters use hypothetical income projections rather than amounts actually being made.

**#2 Exaggerated Market.** Another problem is the overstatement of market potential for the service or product you're interested in selling. In other words, the promoter usually suggests that you will be able to sell more products or that more people will be interested in your service than is realistic.

**#3 Denying the Offer Involves a Pyramid Scheme.** Pyramids and chain distributor schemes are marketing plans that focus primarily on recruiting other participants. The sale of legitimate products is what distinguishes multilevel marketing operations from pyramids. When the emphasis is on recruiting new members rather than selling something of value, the organization is probably an illegal pyramid.

**#4 Claiming the Plan is New.** Multilevel marketing plans are not new. A plan may have unique features, but if it is based on an incentive to recruit members or distributors, it is not a new way to market.

**#5 Claiming No Selling is Involved.** If the company uses a multilevel marketing plan, selling is involved because recruiting participants is considered selling.

**#6 Conflicting Oral Statements.** Promoters may make oral statements that differ from written material. All oral statements should be accurate. There should be no discrepancies between what is written and what is said.

**#7 Approval or Endorsement Claims.** Some promoters claim that the Office of the Attorney General, Better Business Bureau, Chamber of Commerce, or other organization or government agency has endorsed or approved their marketing plan. However, the agencies listed above do not endorse or approve any specific marketing plans.

### **Check Out All Promises**

Before you invest in a business opportunity or multilevel marketing plan, do the following:

- Obtain the names of at least ten other investors and discuss with these investors their experience with the plan and the promoter.
- Obtain specific proof of income representations.
- Obtain specific proof that you will have a good market. Get all verbal promises in writing.
- Ask for copies of the company's business and financial statements.
- Determine all costs you must pay. Do start-up fees pay for such things as training, sample products, literature, or display materials?
- Find out if the company will buy back your inventory if you decide to quit.
- Talk to local business people who are familiar with the product and the market before you decide to invest.
- Always consult with a private attorney or certified accountant regarding the specifics of the plan or concerns about the contract.

### **State Regulation**

The State of Illinois has no registration requirements for multilevel marketing plans. There are, however, requirements for franchises. The Illinois Franchise Disclosure Act is administered by the Office of the Illinois Attorney General. By law, the offer and sale of a franchise must either be registered or qualify for an exemption from the registration process. For information and materials related to the franchise law, contact:

### **Office of the Illinois Attorney General**

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